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SUBJECT: THE UK'S AGING POPULATION STRAINS THE SOCIAL SAFETY NET

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¶11. (U) Summary: The UK is grappling with the booming growth of its elderly population. There were 20 million Britons aged 50 and over in 2003, a 45 percent increase since 1951. This number is projected to increase by a further 36 percent by 2031, to 27.2 million, or 42 percent of the population. Rising public health care expenditures, at 7.1 percent of the UK's GDP, have not yet been matched by greater longevity or better quality of life. Gordon Brown has already brushed up against this third rail as Chancellor; his choices will not be any easy as Prime Minister. End Summary.

Boomers Age, Demand Attention

¶12. (U) The aging population in the UK, as defined by the Department for Work and Pensions (DWP), is anyone aged 50 or over. There were 20 million such people in 2003, in a total population under 60 million, a 45 percent increase since 1951. This number is projected to increase by a further 36 percent by 2031, to 27.2 million, or 42 percent of the population. For the first time ever, the majority of voters are likely to be aged over 50 in the next General Election, expected in 2009 or 2010. A 2006 study by the OECD places the UK 9th in terms of public spending on health care, while its life expectancy rates (76.2 for men and 81.3 for women) put it in the bottom quarter of all 30 OECD countries. Since coming to power in 1997, the Labour government has more than doubled the National Health Service (NHS) budget, increasing it from 33 billion in 1997 to 72 billion in 2006. Although the Labour Party's spending increases have yet to produce immediate improvements in health and well-being, it is, arguably,

too soon to ascertain what impacts they will have in the long term. In terms of old age pension rates, the UK falls short, coming in last among OECD countries, although pensioners' incomes have risen faster than average earnings -- over 28 percent in 8 years -- and the number of pensioners living in poverty fell by 800,000, or 8 percent, during Brown's chancellorship, according to the Office for National Statistics and Institute for Fiscal Studies (IFS), respectively.

¶13. (U) The DWP is the government body most directly involved in addressing the concerns of the elderly. Opportunity Age, first published by the DWP in June 2005, is the UK government's official strategy for addressing the challenges and opportunities presented by an aging society. The strategy aims to end the perception of older people as dependent; ensure that longer life is healthy and fulfilling; and that older people are full participants in society. It also aims to achieve higher employment rates overall and

greater flexibility for the over 50s in continuing careers, managing health conditions and combining work with family and other commitments. Specifically, the government's program under Opportunity Age aspires to a world-leading 80 percent overall employment rate, including one million more older people in work.

Later Retirement Could Help

¶4. (U) In 2003, the British government appointed a special committee chaired by Lord Adair Turner, Vice Chairman of Merrill Lynch Europe and former head of the Confederation of British Industries, to undertake a comprehensive study of pension benefits in the UK. In May 2006, the government published a White Paper -- the precursor to draft legislation -- which adopted virtually all of the reforms recommended by the Turner Commission. The White Paper proposes sweeping changes to the British pension system, both public and private. The changes include an increase in the retirement age for both men and women to 68 by 2050, more generous state pensions with indexing linked to earnings rather than prices, and creation of a voluntary national savings plan, based on employee/employer contributions that would require individuals to "opt-out" if they did not wish to participate.

The number of years required to pay into the system in order to receive benefits will drop to 30 to make it easier for individuals to leave the workforce to care for children or other relatives.

¶5. (U) In a recent lecture at the London School of Economics, Turner identified pensions, healthcare systems, and creativity output from older workers as the major concerns associated with an aging UK society. Turner believes the UK population will be living healthier lives, allowing for them to work productively until an older age. This conclusion allowed his commission to recommend the cost saving measure

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of raising the State Pension Age to 68 from the current 65. Lower fertility rates combined with greater family inheritance per person will also be an effective way to provide for increased GDP spending on the aged population, as less will be spent on youth and new housing development.

¶6. (U) Andrew Harrop, the Head of Policy for Age Concern, a non-profit organization that promotes the well-being of older people, tells us he sees Opportunity Age as the best government policy thus far to deal with aging in the UK, but feels that it is not suited to meet long-term problems. There is talk of possibly creating a governmental Office of Aging, but Harrop believes there is not a lot of enthusiasm for this within the government.

Next Headache: Long Term Care

¶7. (U) Over the past five years, pension reforms have been at the forefront of the political debate, while the long-term care system will likely become the next big issue. Age Concern's assessment of increased longevity in the UK, unlike that of the government's Pensions Committee, does not indicate that the UK public will lead healthier, longer lives. This gloomy conclusion directly contradicts a fundamental assumption on which all the recommendations of the Turner Commission rely. Age Concern argues recent research predicts a very large increase in disability caused by increases in age-related non-communicable disease in all areas of the world, and foresees an increase in the need for long-term healthcare and a debate about how it will be funded.

¶8. (U) Funding at the national level is not the only source of support for the aged. In a report "Securing Good Care for Older People" by the independent health care charity King's Fund in March 2006, author Derek Wanless indicates that for

the over one-million older people (65 and over) who use publicly funded social services, local authorities spent GBP 8 billion (\$16b) in 2004-2005, with private spending on residential and home care estimated at more than GBP 3.5 billion (\$7b).

Brown's Choice: The Young or the Old

¶9. (U) The political sensitivity of pensions was demonstrated by a storm of public criticism of Chancellor Brown's "5 billion pound tax raid on pension funds" of civil servants, as the media dubbed the building impact of pension reforms announced in his first budget message in 1997. Brown's decision was reexamined publicly in 2007 following its release through a Freedom of Information Act request. Brown was accused of weakening the private pension system through a tax law change. Although removing the 25 percent tax credit on share dividends did real damage to pension funds, (estimated to be about a 50 billion dollar reduction in their existing asset values), each individual pension fund lost only about 1 percent a year. Furthermore, shifting markets and increased longevity have had more negative impacts on pension funds than the removal of the credit, yet Brown's cuts remain the primary target of blame for total pension drops. The outrage over the perceived "raid on pension funds" reveals the primacy of political assumptions about aging and retirement and their power to color economic realities. The May 2006 UK Government White Paper "Security in Retirement: Towards a New Pensions System," proposed ways other than restoring the tax cuts to strengthen the system as a whole, including offering low-cost personal retirement savings accounts to those individuals who do not have access to work pension plans, increasing the State Pension age, and improving the basic State Pension to average earnings.

¶10. (U) The IMF weighed in on the economics of aging in its bi-annual World Economic Outlook 2007, reporting the UK is ill-prepared to deal with a population that, peaking at 67 million in 2050, will consist of more than 27 million individuals aged 50 and older--4 million of whom will be 85 and older-- and will have to spend an extra 4 percent of its GDP to cope with it. Her Majesty's Treasury in December 2006 published a "Long-term Public Finance Report: An Analysis of Fiscal Sustainability," a study that contains analysis of the implications of an aging society from a public finance perspective. It found that even though the UK is projected to age less rapidly than other developed countries, these trends are likely to have a profound effect on Britain's society and economy over the coming decades.

¶11. (U) The future of the UK government policy on aging in a

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Brown government is uncertain. Harrop speculates that Gordon Brown will treat aging issues in ways similar to Prime Minister Tony Blair, although instead of favoring increased benefits for all pensioners, Brown will continue to champion the use of means testing to direct increases to the poorest pensioners first. Additionally, Harrop worries about the priority Brown will give to older people in the future, as he believes Brown is more interested in children and families and might give less financial attention to the care of older people.

¶12. (U) The preceding report was prepared by ECON interns Lauren Sible and Jennifer Storz.

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